LNG euphoria dissolves in harsher economic light

By Margaret Orgill (Reuters) LONDON, Oct 24 (Reuters)

This time last year energy companies were rushing to unveil multi-million dollar liquefied natural gas schemes but the heady talk has given way to a more sober mood as a chill light falls on the economic landscape.

The global downturn, a sharp drop in U.S. natural gas prices and plenty of spare capacity at existing plants in Asia could force firms to postpone or scrap some schemes, say analysts.

"There will be a shake-up and some projects will be delayed," said Andrew Flower, an independent consultant who was BP's LNG director until May.

"A lot depends on how deep any economic recession proves to be over the next two to three years," he added.

Gas is normally delivered by pipeline but LNG -- frozen gas shipped by tanker -- allows producers to exploit more remote gas fields and to move gas from one continent to another.

A crippling energy shortage in the power-guzzling West Coast of the United States and new investment opportunities in countries previously closed to outsiders have sparked a rush to finance capital-intensive LNG developments.

Global LNG production grew seven percent last year to around 100 million tonnes, 70 percent of which was supplied to Asia while 25 percent went to Europe and five percent to the U.S.

Analysts expect output could double by 2010 if most proposed projects go ahead.

However, so much investment has already poured into the Asia/Pacific region, home to major LNG producers Indonesia and Malaysia, that there is enough capacity to meet demand until around 2005-2007, said Flower.

Meanwhile a sharp drop in U.S. gas prices this year, if prolonged, could force companies to rethink plans to build more than a dozen new regasification plants in and near the United States to process LNG.

"Talk of supplying the U.S. built up to a fever pitch a few months back. Spot prices are now back to $2-$3...only stronger projects are likely to go ahead," said Robin Baker, head of oil and gas for Europe, Middle East and Africa at French banking group Societe Generale .

Companies such as BP , ChevronTexaco and CMS Energy have announced plans to build plants in Baja California in Mexico while in Florida three more import terminals have been proposed within miles of each other.

Defying industry watchers' doubts, the firms remain upbeat saying they expect prices to rise again in the long term.

PRODUCTION PROJECTS LIKELY TO MERGE

Consolidation is also likely at the production level as potential LNG supply projects, which include as many as four schemes in Egypt, exceed forecast demand, say analysts.

"The winners will be those with access to regasification capacity or have buyers with regasification facilities," said Ben Hollins of Edinburgh-based analysts Wood Mackenzie.

One would-be Egyptian LNG producer, Britain's BG , recently bought access rights to the Lake Charles terminal in

Louisiana in the southern United States.

The company plans to use it to bring gas from its Egypt development which is due to come on stream in 2005 into the U.S. market.

Rumours have also swirled for months that another Egyption gas developer, Spain's Union Fenosa, is in talks with BP and possibly with Royal Dutch/Shell which also have gas schemes in the country.

INDIA, CHINA KEY TO ASIA LNG GROWTH

Producers like BG are looking to sell their Egyptian LNG in southern Europe as well and they could face competition from Middle East producers like Qatar and Oman which mainly export to Asia but will look west if eastern demand fails to grow rapidly.

The key in Asia will be economic growth and market conditions in energy-hungry India and China, said Flower.

"If China and India do not emerge quickly, then prospect for more demand in the Asia/Pacific region is limited," he said.

Earlier this month, France's TotalFinaElf abandoned a project to build an LNG terminal in Bombay, citing poor market conditions.
